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September 25, 1998

Mr. Lewis M. Eisenberg
Chairman
Port Authority of New York and New Jersey
One World Trade Center
New York, NY 10048

Re: Report 98-F-39

Dear Mr. Eisenberg:

Pursuant to the State Comptroller's authority as set forth in Article X, Section V of the State Constitution, we have reviewed the actions taken by officials of the Port Authority of New York and New Jersey (Authority), as of June 29, 1998, to implement the recommendations included in our audit report, *Administration of the TransitChek Program* (Report 96-S-8). Our report, which was issued on July 26, 1997, examined the practices used to administer the TransitChek Program.

Background

The Authority was created by New York and New Jersey in 1921 to support economic development in the New York City/New Jersey metropolitan region. The facilities operated by the Authority include bridges, tunnels, airports, heliports, marine ports, office complexes, and industrial parks. The Authority is self-sustaining financially and derived a net income of \$282.5 million for the year ended December 31, 1997.

The Transit Center (Center) was established in 1986 as a public-private partnership sponsored by the Port Authority Trans Hudson Corporation (PATH), a wholly-owned subsidiary of the Authority; the Metropolitan Transportation Authority (MTA); and New Jersey Transit (NJT). A board of trustees, composed of representatives from ten transit operators and related agencies, and chaired by the MTA, govern the Center. In 1987, the Center introduced the TransitChek Program (Program) to promote the use of mass transit to reduce traffic and pollution. The Program allows participating employers in the New York City metropolitan area to provide their employees with a nontaxable benefit of as much as \$65 a month in mass transit tokens/tickets or specially-designed TransitCheks that can be used to purchase tickets, tokens, and passes from participating mass transit agencies. The employers who participate in the Program pay the Center

a 4-percent administrative fee plus a \$12 shipping charge for every TransitChek order.

Recent Federal legislation (Transportation Equity Act for the 21st Century) now allows employers to offer employees the option of paying for certain transportation benefits with pre-tax earnings. The law previously precluded employers from issuing TransitCheks in place of salary or wages. In addition, legislation has been introduced in the New York State Senate (Senate bill number: S7833) that would allow State employees to elect to participate in this recently-enacted Federal program. Both these measures are expected to greatly increase participation in the Program.

Summary Conclusions

During our prior audit, we found that improvements could be made in the Center's practices for marketing the Program and assessing Program performance. We also concluded that there was a high risk that the Program's administration costs were higher than necessary and recommended that Center management formally assess the costs and benefits of other options to administer the Program. In our follow-up review, we found that the Center has improved some of its practices for marketing and assessing the Program. For example, it's implementing a web site that provides Program information. In addition, the Center has upgraded its database system and believes that this will enable it to be more effective at analyzing its customer base and targeting its potential customers. However, further improvements are still needed to lower costs and improve marketing efforts.

Summary of Status of Prior Audit Recommendations

The prior audit contained 12 recommendations. We found that the Center has implemented six recommendations, has partially implemented two recommendations, and has not implemented four recommendations.

Follow-up Observations

Recommendation 1

Ensure that sales staff regularly initiate contact and follow-up with prospective Program participants.

Status - Partially Implemented

Agency Action - Center officials indicate that sales staff are now contacting and following up on major sales leads. They respond to other inquiries (e.g., from small businesses) by mailing out packages containing all of the information/documents necessary to enter the Program. Inquirers who want additional information are also referred to an "800" telephone number. Because sales leads are more difficult to generate in suburban areas, sales staff in Connecticut and Long Island conduct extensive outreach and follow-up

efforts.

Auditors' Comments - We believe that the Center still needs to make significant improvements in the marketing of the Program, and should direct sales staff to initiate contact with all prospective Program participants.

Recommendation 2

Recommendation 2 was deleted from the final report.

Recommendation 3

Document why firms reject TransitCheks and follow up with the firms to identify ways to improve the acceptability of the Program.

Status - Partially Implemented

Agency Action - Center officials indicate that, according to a survey completed in May 1997 by a consultant, 52 percent of the companies surveyed were interested in TransitChek and 42 percent were not. The lack of interest was noted primarily by companies whose employees did not use public transportation. Approximately 14 percent of the respondents also indicated that they had had administrative difficulties with the Program or had felt a need to determine whether the Program was worth the additional cost. However, no follow-up has been made with these firms to identify ways to improve the acceptability of the Program.

Auditors' Comments - Center officials need to institute a formal system for following up with firms that reject TransitChek to identify aspects of the Program that may need to be improved.

Recommendation 4

Develop or purchase a list of potential customers for TransitCheks.

Status - Implemented

Agency Action - Center officials indicate they purchased lists of potential customers from private vendors twice in 1998 - - once during the winter for sale prospects and once in the summer to promote new aspects of the TransitChek program.

Recommendation 5

Consider various initiatives to increase productivity such as the development of a performance-based incentive program for the Center's sales staff.

Status - Not Implemented

Agency Action - Center officials maintain that a performance-based incentive program is not consistent with the compensation policies promulgated by the public agencies that sponsor the Center.

Auditors' Comments - Center officials and the sponsoring agencies should explore initiatives that can be undertaken to improve sales productivity.

Recommendation 6

Modify the Program's advertising strategy to increase the extent to which advertising efforts are directed at motorists.

Status - Not Implemented

Agency Action - Center officials maintain that increased advertising efforts aimed at motorists is not cost-effective, and that it would not help them market the Program.

Auditors' Comments - Since a major objective of the Program is to reduce traffic and pollution through the increased use of mass transit, the Center should focus more of its marketing efforts on automobile commuters and their employers.

Recommendation 7

Formally evaluate the benefits of low-cost advertising options such as establishing a home page on the Internet, placing public service announcements in major media, or sharing costs with sponsoring mass transit agencies.

Status - Implemented

Agency Action - Center officials indicate that they have undertaken several cost-effective activities to promote the Program. An Internet information site is being implemented with the domain addresses: www.TransitCenter.com (home page) and www.TransitChek.com (connected site for TransitChek information and advertising). The Center also continues to work with participating mass transit agencies to obtain free advertising space. During the summer and fall of 1997, the MTA provided the Center with free advertising space on buses and trains. The MTA also provided free advertising spots on Bloomberg Radio and advertising space on Bloomberg Terminals.

Recommendation 8

Use open competitive procurement processes to obtain proposals for the goods and services

required to administer the Program. As appropriate, contact officials at other TransitChek programs to identify prospective contractors.

Status - Implemented

Agency Action - Center officials indicate that their current contract will expire in 1999 and they will use an open competitive-bid process for the next contract.

Recommendation 9

Ensure that Center records distinguish between active and inactive Program participants.

Status - Implemented

Agency Action - Center officials indicate that, as a result of an 1997 upgrade of the Center's database, they can now determine more precisely the number of companies that have placed orders. This number can be determined for any given time frame. The Center reports on a quarterly basis to its members, indicating the actual number of participants and the number of reorders.

Recommendation 10

Formally assess the impact of the 4 percent fee and the \$12 shipping charge on the Center's ability to successfully market the Program.

Status - Not Implemented

Agency Action - Center officials did not do a formal assessment. They believe that the 4-percent fee has not been a hindrance and that it is critical to their self-sufficiency. They state that they have had double-digit sales growth for each year of the Program's existence. For example, they report that sales for the first six months of 1998 were 22 percent higher than sales for the same period in 1997.

Auditors' Comments - Our prior audit found that the Center's fee was most often higher than the fees charged by other major municipalities. Officials need to formally evaluate whether their fees or some other factors are discouraging participation in the Program.

Recommendation 11

Consider surveying the TransitChek participants to determine their needs for other denominations.

Status - Implemented

Agency Action - In 1997, as a result of a TransitChek MetroCard program survey, the Center introduced a \$60 TransitChek to go along with its \$15, \$21, \$30, and \$35 denominations. However, in 1998, after one year of availability, the Center found few customers used the \$60 denomination and it was discontinued.

Recommendation 12

Use an open competitive process to rebid the contract for TransitChek processing and banking services.

Status - Not Implemented

Agency Action - Officials continue to maintain that banking services are obtained through a competitive process.

Auditors' Comments - During our prior audit and at the time of our follow-up review, Center officials could not provide us with documentation that they had sought competitive proposals for banking services or had negotiated prices for these services.

Recommendation 13

Continue to review all banking services. To the extent that they are not needed or no longer provide any benefit, they should be terminated.

Status - Implemented

Agency Action - Center officials indicate that they reviewed their banking services and have discontinued the serial sorting of TransitChek vouchers by their bank.

Major contributors to this report were Santo Rendon and Frank Torres.

We would appreciate your written response to this report within 30 days, indicating any action planned or taken to address the unresolved issues discussed in this report. We also thank the management and staff of the Transit Center and the Port Authority of New York and New Jersey for the courtesies and cooperation extended to our staff during this review.

Very truly yours,

Frank J. Houston
Audit Director

cc: Robert L. King
Larry Filler